

IAR INLAND EMPIRE REPORT ON BUSINESS

Report for December 2008
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Prepared by:



Sponsors:

**Riverside County Economic Development Agency
San Bernardino County Economic Development Agency**

Supporter:

College of Business and Public Administration, CSUSB

PMI INDICATES ECONOMY IS IN DECLINE

According to Shel Bockman and Barbara Sirotnik (Co-Directors of the Institute of Applied Research), and Lori Aldana (Project Coordinator, Institute of Applied Research), “With the continuation of bad economic news (bailouts, companies closing their doors, lower-than-hoped Black Friday’s sales), it is no surprise that the PMI remains low (35.8). A PMI below 41.1% over a period of three consecutive months generally indicates that the economy is in a decline. This is now the third consecutive month lower than 41.1%: October’s figure was 35.7%, November’s was 39.6%, and now December is at 35.8%. Thus it is now clear that both the manufacturing sector and the local economy are in a state of general decline. This grim local news is confirmed by the National PMI which is now at 32.4% for the month of December (a 28 year low).”

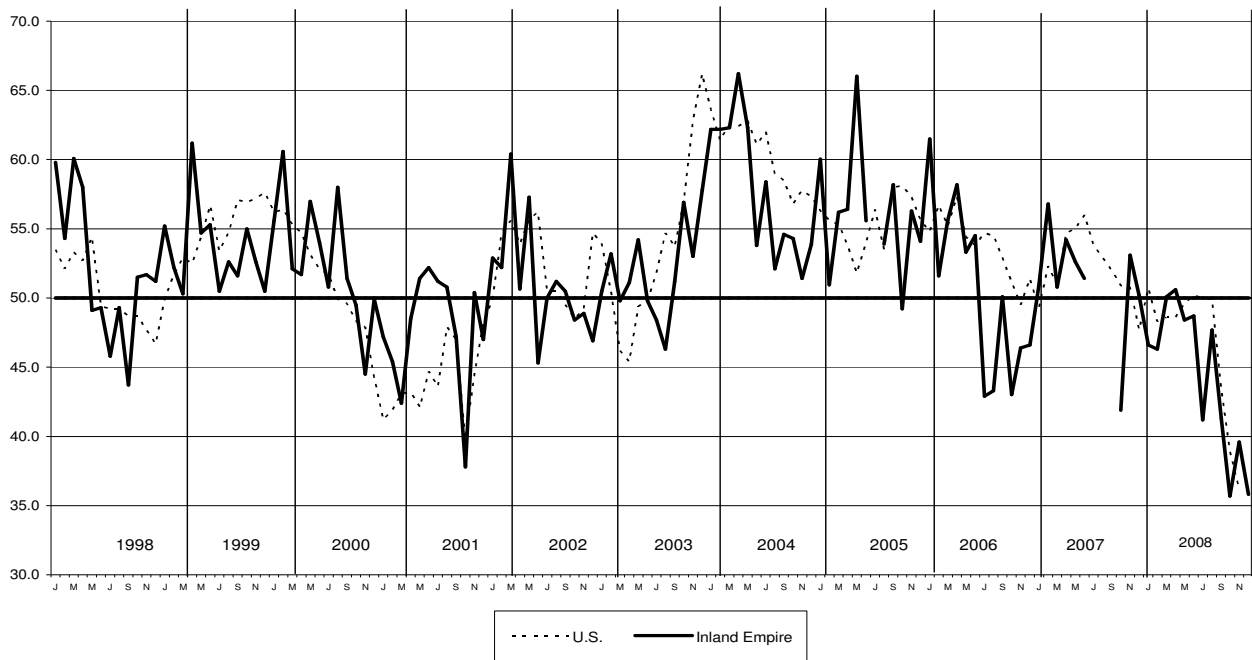
“The local Employment Index increased from 27.4% in November to 34.5% in December, but is still well below the 50% baseline figure indicating that employment continues to decline. Commodity prices decreased slightly from 33.3% last month to 32.1% this month, perhaps in part due to the precipitous drop in oil prices over the past few months. Production and New Orders (the most important indices making up the PMI) also continue to drop: The Production Index dropped to 35.7% in December from 44.0% from last month, and New Orders dropped from 44.0% to 34.5%. Supplier deliveries remained at 45.2%.”

Following are some highlights from this month’s report:

December 2008 Business Survey at a Glance				
	Series Index		Direction from 50*	Rate of Change from Last Index
	Last Month	This Month		
Local PMI	39.6	35.8	Contracting	Faster
Commodity Prices	33.3	32.1	Decreasing	Faster
Production	44.0	35.7	Contracting	Faster
New Orders	44.0	34.5	Contracting	Faster
Inventory	31.0	28.6	Decreasing	Faster
Employment	27.4	34.5	Decreasing	Slower
Supplier Deliveries	45.2	45.2	Slowing	Unchanged
Purchasing Managers' Confidence in the State of the Local Economy				
% Stronger	3%	5%		
% Same	40%	34%		
% Weaker	58%	61%		

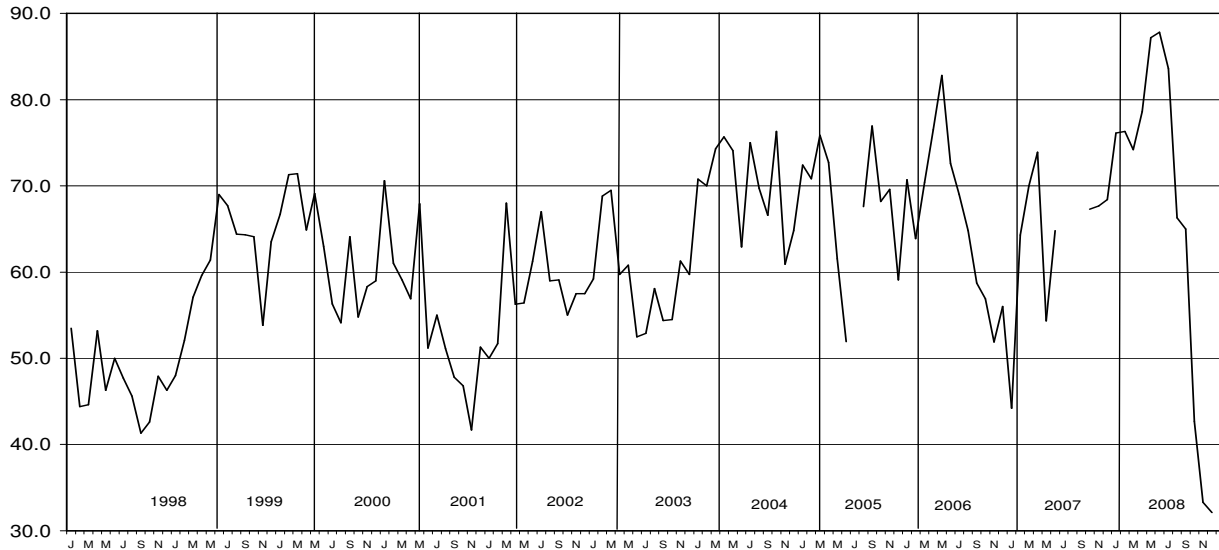
- NOTE: In all cases except Supplier Deliveries, the "Direction" refers to whether the index is above 50% (growing) or below 50% decreasing.

Purchasing Managers' Index



- NOTE: Inland Empire data were not collected for the months of October and November 1996, and July 2005 and July through September 2007.

Commodity Prices



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Purchasing Managers continued to report a drop in commodity prices, citing the weak world economy and the decrease in the cost of oil as driving down the cost of materials. On the other hand, one Purchasing Manager indicated that “petro chemicals are not declining in price at the rate that they should in reflection to the cost of crude oil.” Further, one person said that “price increase announcements have been issued on beams and cold rolled steel due to the increased prices for scrap.”

As has been the case since September, approximately 6 out of 10 Purchasing Managers predicted that the state of the economy would be weaker during the next quarter. Only 5% of Purchasing Managers forecast that the state of the local economy will be stronger in the coming quarter (and 34% believe the local economy will continue to be about the same).

STATE OF THE ECONOMY: DATA FROM 12/2007 THROUGH 12/2008

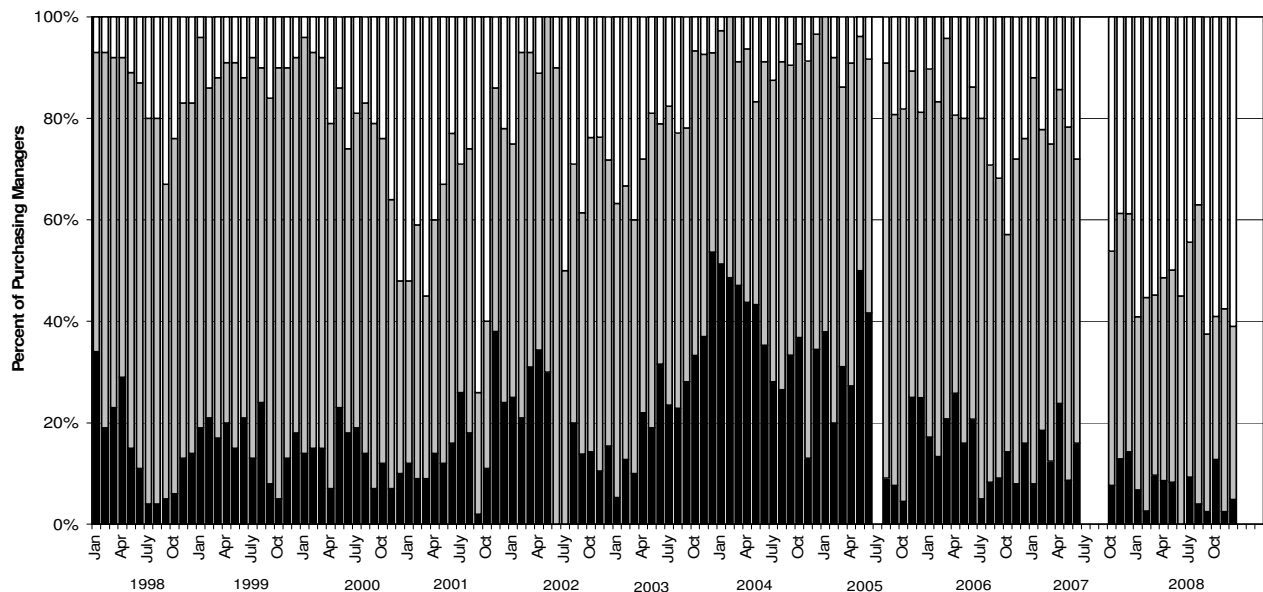
	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Weaker	38	59	55	55	51	50	55	44	37	62	59	58	61
Same	46	34	42	35	40	42	46	46	59	35	28	40	34
Stronger	16	7	3	10	9	8	0	9	4	3	13	3	5

When Purchasing managers were asked to make comments on the general business conditions that affected their company, a few remarked positively: "At this time we are fortunate that our work load is staying steady," "Our business is booming. We will have a record year," "Due to the dramatic decrease in crude oil we have seen our raw materials pricing drop considerably," "Recent

demand over the last 30 days has improved tremendously. This has resulted in added capacity (three) additional production lines in January, 2009, "Stronger economy, think positive!!!," "With so many companies going out of business, it is hard to believe things here at our company where we do hydraulic and pneumatic components for the Aerospace industry (landing gear/braking systems) have been very steady. Our orders from our current customer base will carry us thru 2010. I have seen the cost for raw materials that I purchase (aluminum steel) has been decreasing over the last few months and fuel surcharges have come to an end if requested by the purchasing manager. Deliveries for the past quarter as well as much of 2008 have been on time."

But many Purchasing Managers offered negative comments about general business conditions. Employee layoffs and slow sales continue to be the biggest concerns stated in response to this month's survey. Comments included: "Plastic resins at near all-time low. However, with shortage of orders (telecommunications, cannot take advantage of abundant supplies," "We are seeing a slow down in orders from customers...some due to seasonal issues," "Incoming orders are relatively slow due to holiday schedules, however, our shipments will remain steady through end of year," "Our production of steel rebar is shut down for the next two months due to extremely low sales and too much inventory," "Still very slow," "3 employees offered early retirement and 2 accepted," "We are experiencing a problem finding supplier for gelatin; I'm being told by my regular suppliers that there's a world wide shortage of this product and they might not have any product till mid January. I will be out of this product around the 2nd of next year, so I'm not sure yet what's going to happen but this is a very critical situation were trying to get through," "Raw material lead times are becoming quite extensive," "It is slow this month," "Work is very slow, may look at lay-offs in January, for the first time in our history!" "Very, very slow."

State of the Local Economy



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FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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